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SECRETARY, BOARD OF
OIL, GAS & MINING

**BEFORE THE BOARD OF OIL, GAS AND MINING
DEPARTMENT OF NATURAL RESOURCES
STATE OF UTAH**

IN THE MATTER OF THE REQUEST FOR AGENCY ACTION OF FIDELITY EXPLORATION & PRODUCTION COMPANY FOR AN ORDER ESTABLISHING A SPECIAL DRILLING UNIT FOR THE CCU 36-2-25-19 HORIZONTAL WELL FOR THE PRODUCTION OF OIL AND ASSOCIATED GAS AND HYDROCARBONS FROM THE PARADOX FORMATION COMPRISED OF THE SE $\frac{1}{4}$ SE $\frac{1}{4}$ OF SECTION 25 AND THE S $\frac{1}{2}$ S $\frac{1}{2}$ OF SECTION 36, TOWNSHIP 25 SOUTH, RANGE 19 EAST, SLM, THE N $\frac{1}{2}$ N $\frac{1}{2}$ [UNSURVEYED] OF SECTION 1 AND LOT 1 OF SECTION 2, TOWNSHIP 26 SOUTH, RANGE 19 EAST, SLM, AND LOTS 4 AND 5 OF SECTION 6, TOWNSHIP 26 SOUTH, RANGE 20 EAST, SLM, GRAND COUNTY, UTAH

REQUEST FOR AGENCY ACTION

Docket No. 2016-002

Cause No. 166-07

COMES NOW, Fidelity Exploration & Production Company ("Fidelity"), acting by and through its attorneys, MacDonald & Miller Mineral Legal Services, PLLC, and pursuant to Utah Code Ann. §§40-6-5(3)(b) and 40-6-6(6), and hereby respectfully requests the Board of Oil, Gas and Mining (the "Board") to enter an order establishing a special drilling unit for the CCU 36-2-25-19 horizontal well (the "Subject Well") for the production of oil and associated gas and hydrocarbons from the Paradox formation, defined for purposes of this Cause as follows:

that interval between the stratigraphic equivalence of 3,668 feet and 8,733 feet, as shown on the Gamma Ray Log of the CCU 36-2-26-19 Well, with a surface hole location in the SW $\frac{1}{4}$ SW $\frac{1}{4}$, Section 36, T25S, R19E, SLM,

comprised of the following Grand County, Utah lands:

Township 25 South, Range 19 East, SLM

Section 35: SE $\frac{1}{4}$ SE $\frac{1}{4}$

Section 36: S $\frac{1}{2}$ S $\frac{1}{2}$

Township 26 South, Range 19 East, SLM

Section 1: N $\frac{1}{2}$ N $\frac{1}{2}$ [unsurveyed; protracted 235 acres which apparently will consist of Lots 1-8 if and when surveyed]

Section 2: Lot 1 (18.91)

Township 26 South, Range 20 East, SLM

Section 6: Lots 4 (18.05) and 5 (38.44) [NW $\frac{1}{4}$ NW $\frac{1}{4}$]

(containing 510.40 protracted acres)

(the "Subject Lands"), retroactive to August 26, 2014, the date of first production from the Subject Well.

In support of this request, Fidelity respectfully states and represents:

1. Fidelity is a Delaware corporation in good standing with its principal place of business in Denver, Colorado. It is an indirect subsidiary of MDU Resources Group, Inc. Fidelity is duly qualified to conduct business in the State of Utah, and is fully and appropriately bonded with all relevant Federal and State of Utah agencies.

2. The oil and gas underlying the Subject Lands are owned by both the United States of America, administered by the Bureau of Land Management (“BLM”), and the State of Utah, administered by the Utah School and Institutional Trust Lands Administration (“SITLA”), and are subject to the following oil and gas leases:

<u>Lease</u>	<u>Lands</u>
United States UTU-53624	Sec. 35: SE $\frac{1}{4}$ SE $\frac{1}{4}$
State of Utah ML-40571	Sec. 36: S $\frac{1}{2}$ S $\frac{1}{2}$
United States UTU-65972	Sec. 1: N $\frac{1}{2}$ NW $\frac{1}{4}$ (unsurveyed; which apparently will consist of Lots 3-6 if and when surveyed)
United States UTU-64817	Sec. 1: N $\frac{1}{2}$ NE $\frac{1}{4}$ (unsurveyed; which apparently will consist of Lots 1, 2, 7 and 8 if and when surveyed)
State of Utah ML-40761	Sec. 2: Lot 1
United States UTU-68342	Sec. 6: Lot 4
United States UTU-64821	Sec. 6: Lot 5

(the “Subject Leases”). The operating rights in the Subject Leases, as relevant to the Paradox formation (as defined above), are owned solely by Fidelity.

3. The Subject Lands and Subject Leases are either effectively or fully committed to the Cane Creek Federal Exploratory Unit, approved by the BLM effective April 15, 2002. Fidelity serves as Unit Operator.

4. Under the terms of the Cane Creek Unit Agreement, all oil and gas in all formations underlying the committed lands are unitized. However, production is only allocated on a participating area basis, established by wells that are capable of producing Unitized Substances in Paying Quantities; *to wit*: “quantities sufficient to repay the costs of drilling, completing and producing operations, with a reasonable profit.” Production from any well not meeting the “Unit Paying Quantities” criteria and not otherwise within an established participating area is instead to be allocated on a leasehold basis.

5. The following portions of the Subject Lands are currently within the Second Revision of the Second Consolidated Paradox Formation Participating Area of the Unit (the “PA”), which said formation equates to the Subject Formation:

Township 25 South, Range 19 East, SLM

Section 35: SE $\frac{1}{4}$ SE $\frac{1}{4}$

Section 36: S $\frac{1}{2}$ S $\frac{1}{2}$

Township 26 South, Range 19 East, SLM

Section 1: N $\frac{1}{2}$ NW $\frac{1}{4}$ and NW $\frac{1}{4}$ NE $\frac{1}{4}$ (unsurveyed; which apparently will consist of Lots 2-7 if and when surveyed)

Section 2: Lot 1

With respect to any Non-Unit Paying Quantities Well draining any portion of a participating area, under Federal regulations and guidelines, any production allocated to

such participating area lands under a conforming communitization agreement is then to be allocated pro-rata over the entire participating area.

6. Pursuant to an application to drill approved by both the BLM and Utah Division of Oil, Gas and Mining (the “Division”), Fidelity spud the Subject Well on May 12, 2014 at a surface location 267 feet FSL and 754 feet FWL in the SW $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 36, Township 25 South, Range 19 East, SLM, and drilled it horizontally with a terminus 738 feet FNL and 329 feet FEL in the NE $\frac{1}{4}$ NE $\frac{1}{4}$ (unsurveyed; which apparently will consist of Lots 1 and 8 if and when surveyed) of Section 1, Township 26 South, Range 19 East, SLM. The lateral was drilled through and perforated in the Paradox formation (as defined above), and the Subject Well was completed as a producing oil well, and with first production occurring, on August 26, 2014. However, as evidenced by BLM Decision Letter dated October 6, 2014, the BLM determined the Subject Well does not satisfy the “Unit Paying Quantities” criteria under the Cane Creek Unit Agreement.

7. Since the vertical portion and the lateral of the Subject Well encompass portions of both the PA and of three additional Federal Leases not within the PA, under Federal regulations, a communitization agreement will be required. However, under Federal guidelines, the BLM will not approve a communitization agreement without a conforming spacing order from the Board. There currently is no spacing order from the Board relating to the Subject Lands.

8. Consequently, and to protect correlative rights, Fidelity requests the Board to establish a special drilling unit for the Subject Well, *i.e.*, the oil and associated gas and hydrocarbons produced from the Paradox formation (as defined above) comprised of the Subject Lands (protracted 510.40 acres), retroactive to August 26, 2014, the date of first production from the Subject Well.

9. Fidelity believes and therefore alleges that: (1) the Paradox formation (as defined above) underlying the Subject Lands generally constitute a common source of supply for oil and associated gas and hydrocarbons; and (2) the Subject Lands are not smaller than the maximum area that can be economically and efficiently drained by the Subject Well.

10. The basis for Fidelity's allegations made in Paragraph 9 above in part stem from stimulated reservoir volume (or "SRV") calculations, reflecting drainage of approximately 723.28 feet either side of the lateral (1,446.56 feet in total width) and including any quarter-quarter section (or substantially equivalent lot) cut by the corresponding rectangle. The BLM has preliminarily approved and agreed with this methodology.

11. In furtherance of the protection of correlative rights, Fidelity requests that any new well (whether vertical or horizontal) producing from the Paradox formation (as defined above) may not be located closer than 760 feet from any portion of the Subject

Well's lateral located within said Formation without an exception location approval by the Division or Board in accordance with Utah Admin. Code Rule R649-3-3.

12. In addition, Fidelity requests that, presuming this Request is granted, the conforming Order be suspended without further order of the Board if and as of the effective date of the determination by the BLM that the Subject Well is capable of producing Unitized Substances in Paying Quantities, and/or inclusion of all of the Subject Lands within a Unit participating area. In such an event, Fidelity, or its successor Unit Operator, shall provide to the Board's secretary a copy of the BLM Decision Letter reflecting such a determination so that the Board's records may be properly noted to reflect such suspension becoming effective.

13. Fidelity believes and therefore alleges that the requested relief will allow for the orderly development of the Subject Lands, prevent waste, and adequately protect the correlative rights of all affected parties, and is just and reasonable.

14. Fidelity will, in accordance with Board rules, submit exhibits and present testimony in support of these allegations.

15. Fidelity will separately file a certificate of mailing listing all parties known to it based on a search of the respective BLM, SITLA and Grand County realty records, the records of the Division, and upon its own internal records, whose "legally protected

interests” will be affected by this Request. There are no respondents or adverse parties known at this time to Fidelity.

WHEREFORE, Fidelity respectfully requests:

1. That this matter be set for hearing on February 24, 2016;
2. That notice of such hearing be given as provided by law; and
3. That upon sufficient evidence produced and testimony given at the hearing,

the Board grant this Request and issue an order:

- a) establishing a special drilling unit for the CCU 36-2-25-19 horizontal well for the production of oil and associated gas and hydrocarbons for the Paradox formation (as defined above), comprised of the SE $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 35 and the S $\frac{1}{2}$ S $\frac{1}{2}$ of Section 36, Township 25 South, Range 19 East, SLM, the N $\frac{1}{2}$ N $\frac{1}{2}$ [unsurveyed; which apparently will consist of Lots 1-8 if and when surveyed] of Section 1 and Lot 1 of Section 2, Township 26 South, Range 19 East, SLM, and Lots 4 and 5 of Section 6, Township 26 South, Range 20 East, SLM, Grand County, Utah, retroactive to August 26, 2014, the date of first production from said Well;
- b) providing that no well (whether vertical or horizontal) producing from the Paradox formation (as defined above) may be located 760 feet closer than from any portion of the Subject Well’s lateral located within said Formation without an exception location approval by the Division or Board in accordance with Utah Admin. Code Rule R649-3-3;
- c) providing said Order shall be suspended without further order of the Board if and as of the effective date of the determination by the BLM that the Subject Well is capable of producing Unitized Substances in Paying Quantities, as defined in the Cane Creek Unit Agreement, and/or inclusion of all of the Subject Lands within a Unit participating area. In such event, Fidelity, or its successor Unit

Operator, shall provide to the Board's secretary a copy of the BLM Decision Letter reflecting such determination so the Board's records may be properly noted to reflect such suspension becoming effective;

- d) making such findings and orders in connection with this Request as it deems necessary; and
- e) providing for such other and further relief as may be just and equitable under the circumstances.

Respectfully submitted this 31st day of December, 2015.

**MACDONALD & MILLER MINERAL
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